

The Crisis Impact on the Labour Market

Simona Valeria TOMA

Dunarea de Jos University of Galati, Romania

simona.toma@ugal.ro

Daniela Ancuta SARPE

Dunarea de Jos University of Galati, Romania

d_sarpe2000@yahoo.fr

Abstract

The aim of this paper is to discuss the impact of the current global economic crisis on the labour market, including the risk that the recession will be followed by a jobless recovery that contributes to a lost generation of young people in the workforce. The crisis affects different sectors in different ways, but the impact also varies according to age, gender, skills level and type of contract. Although it had a more significant effect on the private sector of the economy, the crisis's impact on the broader public sector is also obvious. Migrants, both legal and illegal, are particularly vulnerable during crises because they are typically not being provided the same level of employment protection as native workers and hence they are the first to lose their jobs during an economic downturn.

Keywords: economic crisis, unemployment, young workers, migrant

JEL Code: E24, F16, F22

1. Introduction

Being forced out of a job is an unpleasant experience. Employers often prefer to use euphemisms such as "I'll have to let you go" that implies it's somehow liberating or what the worker wanted. Thomas Carlyle, the man who coined the expression "the dismal science" to describe economics, was much nearer the mark. Writing in 1840, he claimed that "A man willing to work, and unable to find work, is perhaps the saddest sight that fortune's inequality exhibits under this sun."

Modern research support Carlyle's view. For instance, finding yourself unemployed has a more detrimental effect on mental health than other life changes, including losing a partner or being involved in an accident. A long spell of joblessness has social costs too, whether at the level of individuals and families or whole communities. Tackling unemployment and its consequences has to be a major part of governments' response to the crisis. This paper looks at the worker and sector most affected by the crisis and how policies can help workers face the storm.

In most respects, the present crisis is like previous ones in the way it affects different sectors of the economy and categories of workers, even though both speed and scale of the changes are different. Typically, construction is the first industry to be hit during a downturn. After construction, durable goods would be the hardest hit. The difficulties of the automation industry show how the financial crisis soon spread to the "real" economy. Given the global nature of the durable goods sector, the unprecedented downturn in world trade (over 10% in 2009) greatly aggravated the employment situation to the point where unemployment in this sector have been steeper than those in construction in many countries.

We tend to associate the auto industry with the countries that the big car makers are based in, as most of the jobs have been lost in these countries. But looking at a smaller country with no domestic producer reveals the concrete reality of many of the things we talk about in this paper. As the *National Business Review* points out, imports were supporting a range of jobs such as cafeteria workers in the ports, and not just the obvious ones in dealerships or auto financing companies.

2. The crisis impact to the different sectors

The crisis affects different sectors in different ways, but the impact also varies according to age, gender, skills level and type of contract. The employer's cost of hiring and firing worker (turnover costs) is important here. Turnover costs for young people are lower than for others, since they have relatively little experience and do not benefit much from any seniority rules. Over the past 15 years or so, the youth unemployment rate has been over 2.5 times higher than that of workers aged 25 to 54 ("prime age" workers). Sensitivity to business cycles is twice as high for younger workers as for those of prime age, and 70% to 80% above the national average. Older workers are about 20% more sensitive to business cycles than prime age workers, but no more sensitive than the national average. This is the case of the OECD Europe countries (Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Luxemburg, Mexico, Netherland, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom).

Workers on temporary contracts are also more likely to lose their job than permanent workers. Higher skill levels tend to lessen the chances of being unemployed, partly because workers may move to a lower skilled occupation, and partly because firms wait longer before laying off skilled worker who will be more difficult to replace when business picks up.

Looking from past and the present downturns in the business cycle we may have surprises. First, gender has not made any difference to the chances of losing a job in past recessions. This may be due to the fact that construction and other hard-hit occupations are male-dominated. Secondly, looking at women and men in the same line of work substantially increases the female employment. In other words, the current crisis has actually hit men harder than women. The greater than typical concentration of job losses in construction and manufacturing, which is associated with the bursting of the housing price bubble and unprecedented decline in international trade flows, explains why men are bearing the brunt of rising unemployment.

The International Labor Organization (ILO) found evidence of an increasing gender disparity in unemployment rates in developing countries. The agency thinks that policies against gender discrimination are being neglected in efforts to encourage the global economic recovery. The unemployment persons from the ILO report proves that the economic crisis had served to exacerbate gender inequity in areas where it existed before. With the gender gap in unemployment increasing in the developing world, the ILO is warning that policies guarding against gender discrimination were being increasingly ignored in the response to the economic crisis.

"Clearly, what is happening in these regions is that where job markets were already highly competitive for youth, as the market becomes even more difficult during the economic crisis, young women are pushed even further to the back of the queue; prior to the crises, women were actually more likely than their male counterparts to receive new jobs. The ILO's report shows that in the developing economies and the European Union, the increase in the male youth unemployment rate during 2007- 2009 was 6.8 percentage points, compared to 3.9 points for young women. While educational advancements in developed nations often translate into greater employment opportunity in developed nations, for young women in the world's developing countries, the same does not hold consistently true.

3. The impact on the young people

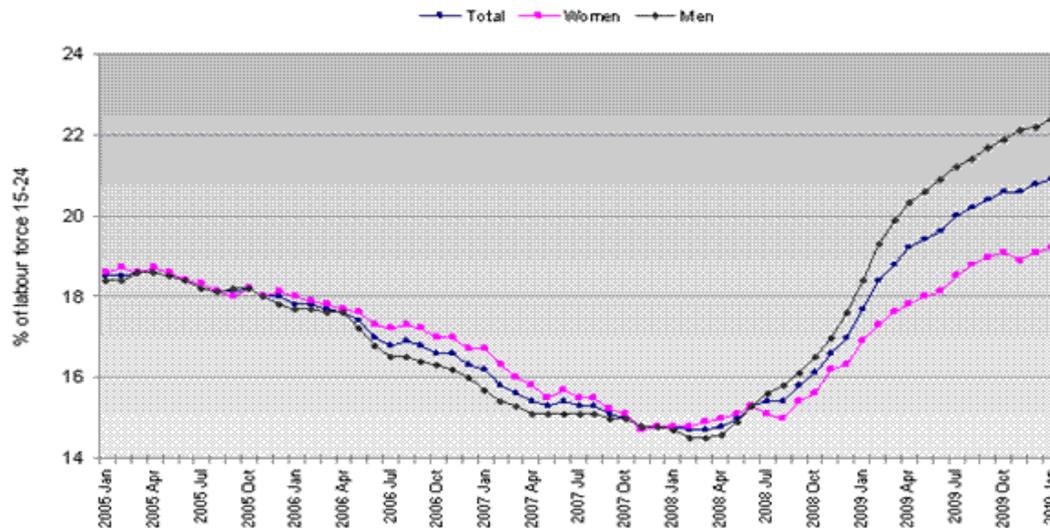
Unemployment rates of young people are twice higher than in the adult population. Moreover EuroStat statistics show clearly that the economic crisis hit young people harder than adults. Also, young people with fewer opportunities are the ones that fall out of the employment boat first (e.g. immigrant workers, lowly skilled workers,...).

The EU youth (15-24) unemployment rate (15.4% in 2008, almost 21% end 2009) is approximately three times higher than the unemployment rate in the adult population. There are substantial geographical differences in youth unemployment ranging from 5.9% in the Netherlands to almost

23% in Greece (2007). In general, EU unemployment rates for young women were (slightly) higher than for their male peers.

But young men account for two-thirds of the increase in youth unemployment since the start of the economic crisis in 2008.

Youth unemployment rates in the EU:



Source: Eurostat, Series on unemployment. Data seasonally adjusted.

Across the EU, 26% of unemployed aged 15-24 and 35% of unemployed aged 25-29 were long term unemployed (more than 12 months). Long term unemployed people generally have a socially unacceptable income (not fitting societal standards) and are at risk of social exclusion. Generally long term unemployment is negatively correlated with the level of education: it tends to decrease with higher education. People with lower secondary education are nearly 3 times more at risk of unemployment than people with higher education

One out of seven (14.8%) aged 18-24 in the EU leaves the education system with no more than lower secondary education and does not participate in any other form of education or training (early school leavers). There tends to be a North/South divide in the EU regarding early school leaving; some Southern countries reaching up to 30% early school leavers, in the North some countries have less than 10% school drop-outs. The percentages of early school leavers are higher for young men than for women.

Young people's socio-economic background (e.g. the educational level of their parents) influences largely their academic success. The majority of young people (25-34) whose parents only completed lower secondary school, will also at most complete secondary school. On the contrary, those with parents who completed tertiary education have a much higher chance of completing higher education themselves. 20% of young people aged 18-24 are at risk of poverty (defined as having an income below 60% of the national median income). Young adults face a higher risk of poverty as support from their parental home diminishes and integration to the labour market takes place in an early stage.

Young people from disadvantaged backgrounds face a higher risk of social exclusion. Living conditions during childhood have a significant impact on future life prospects. This is the vicious cycle of intergenerational inheritance.

Pathways to adulthood and citizenship become increasingly individualised. The challenge is that young people are expected to acquire knowledge and skills in formal trajectories, however learning increasingly takes place in non-formal and informal settings.

Of those young people (15-24) who are employed, almost 40% have a temporary job (not by choice but because they could not find a permanent job), only 20% of the 25-29 have temporary contracts. Young people with low education have more often temporary contracts than those with higher education (e.g. 50% of the low educated 15-24 group). Temporary contracts can be a stepping stone towards permanent employment, but they also limit young people's financial and personal autonomy. The use of temporary contracts in Europe is increasing. Half of the young people (15-24) with a job are employed in low skilled and elementary occupations. 35% of the 25-29 employed are still working in low skilled and elementary jobs.

Contrary to a widespread opinion that the young people are more 'instrumental' and less interested in work, the researches showed that <30 youth have a more 'expressive' relation to work, looking for self-fulfilment (the highly educated), through pleasant relations, social usefulness of the job, interest in the sector, autonomy at work, possibility to express oneself.

4. The situation of migrants workers

Immigrants were already more vulnerable to unemployment than the rest of the population before the recession in most of the countries, with the notable exception of the United States. In 2006, the unemployment rate of immigrants was twice that of the native-born in Switzerland, in the Netherlands, in Belgium, in Austria and in most Nordic countries.

Migrants workers are particularly vulnerable during a crisis for three reasons:

- they often work in the industries that are most affected by downturns (and upswings) such as construction
- turnover costs are more likely to be on temporary contracts
- they may be victims of discrimination when, the public concern about the future and the risk to livelihoods express the latent resentment which could be crystallised into the call to "stop them stealing our jobs".

The global economic crisis is posing new challenges for the world's 100 million migrant workers. They may face reduced employment and migration opportunities, worsening living and working conditions and increasing xenophobia. Although no massive return of migrant workers has been observed so far, the crisis is having repercussions on their earnings and the remittances they send home.

Contraction of the economy and rising unemployment may prompt destination countries to introduce more restrictive labour migration policies. Origin countries, which often heavily depend upon the remittances from migrant workers, respond to the impact of the crisis by exploring new labour markets and introducing reintegration and employment packages. To date, no mass returns of migrant workers have been observed, but new outflows from some countries of origin have slowed down.

At the same time, the number of returning migrant workers in 2008 remained similar to the previous two years. Voluntary return programs implemented by destination countries have fallen far short of the targeted numbers. Migrant workers often choose to remain despite deteriorating labour market conditions in order to preserve social security benefits. The adverse economic and employment situation in the origin country also discourages them from returning home. The rates of growth of remittances has declined, and in some areas so has absolute volume. A number of countries in Latin America, sub-Saharan Africa and especially Central Asia have been seriously affected. Thus poverty reduction and the sustainability of economic activity and employment in some countries are at risk. However, in some countries, such as Egypt and Pakistan, during certain periods since the crisis broke out, remittances have increased despite the economic downturn,

suggesting they acted as countercyclical measures (rising when the economy is weakening, and falling when the economy is strengthening).

Remittances are the most visible and tangible benefits of labour migration. At the macro level they bring in foreign exchange and contribute to correcting balances on current accounts in countries of origin. In many countries, remittances represent a high proportion. Through their direct and multiplier effects, they sustain demand and thus stimulate economic activity. Employment is generated as a result. At the household level, remittances can contribute to poverty reduction and human capital development through expenditures on education and health care.

In times of crisis, slack demand for labour increases the likelihood of precarious and irregular employment. Perceived or actual competition for scarce jobs and discriminatory reactions of nationals against migrant workers and their families. While little evidence exists, it is likely that migrant workers will be forced to take on jobs in poor working conditions and/or in the informal economy. Certain groups and individuals may demand more protectionist measures or show aggressiveness towards migrants. Examples of such reactions exist in different regions. However, it is important to emphasize that violence and xenophobia against migrant workers are far from widespread. Policies encouraging voluntary return put in place by some countries of destination have not realized their objectives up to now. A response to the crisis that only takes into account the decline in overall demand for labour, without regard to differential sectoral demands may end up generating irregular migration. It is still too early to assess the impact of more restrictive admission measures on the operation of labour markets and on the migration status of foreign workers. The employment situations in countries of origin and the remittances they receive will have to be monitored to examine the effectiveness of their adopted policy measures. This also applies to the protection of the rights of migrant workers.

5. The crisis on the labour market in Romania

The first years of transition, Romania has faced an unemployment boom, on the basis of the structural changes in the national economy. By the process of restructuration, privatization, closeout of the companies having mainly a state capital, the structure of the employment force has changed, i.e. employment in the state sector was reduced as a result of the processes of restructuration, privatization and closeout, while employment in the private sector has increased.

As a result of the imbalances caused by passing to market economy, the massive personal dismissals induced by the process of restructuration or closeout of the economical unit led to the decreasing of the number of employees and to increase of number of unemployed. It is necessary that the social policy should start from the need for a radical change in approaching this subject. To create minimum conditions for citizens to be able to actually take part in the social life it is necessary that the legislative guarantees should be ensured urgently in parallel with continuous increase of the individual responsibility level.

The social model for achieving this must rely on the equilibrium between competition, cooperation and solidarity, by differential pay according to efficiency criteria and by balanced and transparent distributions of incomes earned in the society. In order to come out from the economic crisis in which lies, Romania needs more jobs on the basis of the social solidarity. The main objective is to ensure the protection and social welfare measures for certain categories or groups of persons able to work, by actions which will contribute to securing the work place, to attain permanent and rising incomes, as an essential premise for improving the living conditions of the active persons in the labour market.

In the last period of time, the specialists, citizens and mass-media are more often asking themselves whether there is a crisis or not on the labour market in Romania or whether on middle-term we're heading towards a crisis in this field. If there is a real crisis on the labour market in our country, we logically have to answer also what we have to do on short and middle term to solve this delicate and serious matter. According to statistics, comparative with 1989, the indicators show that the

number of employees in Romania has constantly dropped from 9 millions to 4.7 millions, at present. The persons employed in agriculture are about 2.2 millions and the persons employed as authorized natural person, members of the family businesses, employers, managers, administrators comes up to 1,1 million persons. In these conditions the number of employed persons in Romania is about 8 millions. As a conclusion actually the number of persons employed in Romania dropped to 1 million compared to 1989.

The diminishing number of persons employed in Romania was caused especially on the basis of reduced number of employees in our country. In the time of strong economic restructuration, the number of employees was significantly reduced in Romania from 9 millions to 4.7 millions. In exchange, the employment has grown in areas typical to market economy, which have continuously developed and consolidated.

The unemployment in Romania has not increased accordingly as a result of the legal and illegal immigration. Following this, at present over 2 millions Romanian citizens are working abroad, in accordance with some unofficial statistics. The migration phenomenon was accelerated in the last 3-4 years before Romania officially joined the EU. The migration phenomenon has had a series of positive effects, such as reduction of unemployment, poverty and social problems, especially in the rural environment and in areas which were strongly affected by the economic restructuration in the last years of transition.

The fact that in the last period of time the migration phenomenon has increased, led to a labour deficit in certain domains such as constructions, agriculture, tourism, construction materials, mechanical processing, clothing and leather goods industry. The migration phenomenon accentuated after January 01st 2007 through the increase of the number of those who choosed to work in other EU countries. So the labour force deficit also accentuated and expanded in other fields, in addition to those already mentioned. This phenomenon could lead to a real crisis on the Romanian labour market.

The crisis on the labour market shall limit Romania's economical growth by reducing the annual rhythm of economic growth and shall seriously affect the achievement of the objective of Romania's medium and long term lasting development. Romania's budgetary balances are also endangered, with strong negative effects especially on the budgets of social and health insurance pensions. It is known that the budgets of social and health insurance pensions function well on a ratio from 3 to 3,5 employees per one beneficiary, and at present this ratio is totally unfavorable, from 0,8 employees per one beneficiary.

The continuation of migration in the previous period over the critical level, estimated by some calculations at still 0.5 millions persons, shall lead to a serious crisis of systems of social and health insurance pensions.

The capacity to pay pensions in Romania and to finance the health system at the level of its proper functioning is seriously jeopardized. In these conditions we consider that the responsible governmental authorities must urgently receive the alarm signal and that they take the necessary measures in order to avoid the crisis on the labour market and the extremely serious negative consequences that may arise in other domains as well. We will now try to present synthetically, from our point of view the main measures to be taken in order to avoid a crisis on the labour market in Romania are:

- Urgent measures in order to introduce on the labour market the economic and financial leverages proper to a market economy, which would lead to the growth of labour incomes, diminish the phenomenon of labour force migration and contribute to the coming back of some Romanian citizens who are working abroad. The specialists' estimations show us the fact that when the medium wages in Romania surpass the limit of 50% of the medium wages in the EU countries, the migration tendency will decrease, and those working abroad will come back in

Romania, after having bought a lodging, longlasting house equipments and eventually a means of transport with their incomes;

- Measures for stimulating the Romanian capital investments in high by efficient domains which insure higher payment standards as well;
- Stimulating the investments in the employees' continuous professional training.

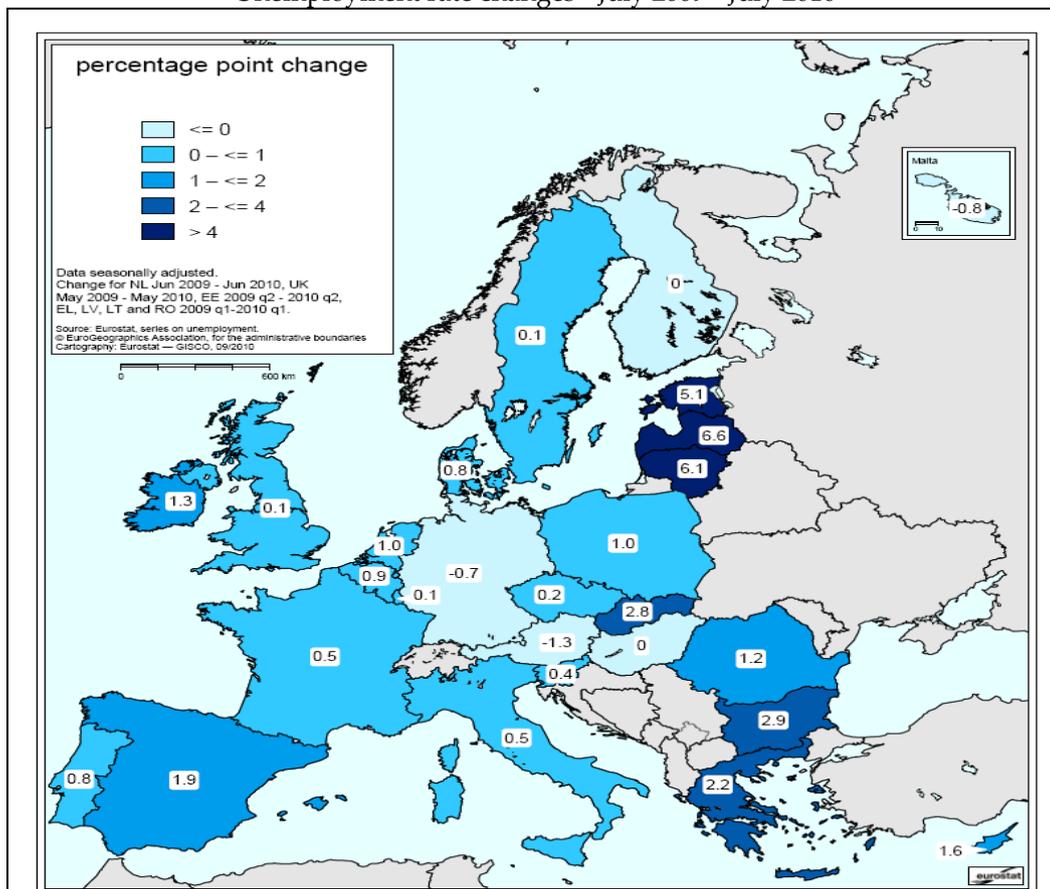
6. Conclusions

As a consequence of the current global financial and economic crisis, both industrialized and developing countries are experiencing massive adjustments to their labour markets as evident by the surging numbers of unemployed and rising levels of poverty.

The consistent signs of stabilization in the EU labour market continue, with a halt to employment declines in the second quarter of this year, however, employment still remains down year-on year in the EU and most Member states.

Unemployment in the EU started to fall in may this year, while the unemployment rate has been stable for half a year, driven by a fall in unemployment among men over the five months to July. The impact of the crisis on the overall labour market in the EU remains significant; a high unemployment rate for young people remains a challenge in all Member States.

Unemployment rate changes - July 2009 - July 2010



Unemployment had stabilized or declined in most member states by July, nevertheless, the unemployment rate remains higher than a year ago. The youth unemployment in the EU has stabilized since last autumn and the rate has been declining since its peak in February. The recovery in the US economy has already reversed the trend in unemployment. EU consumers' fears of unemployment, which have faded for nearly a year and a half now, eased further in August.

While firms' employment expectations have been broadly improving since spring last year across most sectors, labour demand continues to stabilize or improve in some Member States, however, hiring prospects are mixed across Member States.

While European online recruitment activity reached a 17 month high the demand for temporary agency workers is higher than a year ago in all countries. Announced job losses had continued to slightly outnumber announced job gains by July, while in August a jump in losses widened the negative net balance. During the generally quieter months of July and August the European Restructuring Monitor (ERM) unexpectedly reported extensive restructuring job loss mainly due to a single large-scale restructuring announcement in the Romanian public sector. Public Administration and Manufacturing were the sectors most affected by announced restructuring job losses in Romania. Public Administration was the sector the most affected in July and August 2010 with 62440 announced job losses, mostly coming from restructuring activities in the Romanian public sector. Other significantly affected sectors included Transport and Communications (8250 jobs) and Financial Intermediation (6500 jobs). The Member States with the largest announced job losses were Romania (62440 jobs), Italy (9820 jobs) and France (9469 jobs), followed by the United Kingdom (4205 jobs) and Germany (3580 jobs).

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